

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

NIC #02014-84
29 March 1984

National Intelligence Officers

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: Maurice C. Ernst
NIO for Economics

SUBJECT: Iran-Iraq War Strategy--Oil Supply Aspects

1. It is unlikely that the possible impact of an intensification of the Iran-Iraq war on oil supplies, or US strategy to avoid or minimize this impact, will be discussed at any length at the NSPG meeting. For your information, the state of play on various aspects of the Gulf oil supply problem appears to be the following:

- o As a follow-up to last week's NSC meeting, an NSDD was issued on how the US would handle oil market problems in the event of an oil supply interruption. The critical decision is to release oil from the SPR early in the crisis and in large volume.
- o Contingency planning to protect Gulf oil shipping and help protect or rebuild Southern Gulf oil facilities is well along. Apparently little more can be done at this point because of Saudi unwillingness to cooperate. As Graham Fuller's memo points out, the Southern Gulf countries will view the US as being part of the problem until there is a major Iranian attack, and only then will they turn to us for a solution.

2. One US initiative intended to make Iraq more confident about the future, and consequently less inclined to attack Gulf oil shipping in a major way, appears to have lost its earlier momentum--this is promoting the construction of new Iraqi oil export pipelines through Saudi Arabia and

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Jordan. Plans for building a pipeline to connect with the existing trans-Saudi Arabia pipeline are moving forward, although not very fast. However, the Iraqis apparently are unwilling to push ahead with the larger pipeline through Jordan without a US lead and perhaps financial participation. Bechtel, the likely prime contractor for the pipeline, is in Washington for discussions with State and the EX-IM Bank. I understand that they do not want to provide any financing and that EX-IM is inclined to be negative concerning any possible loans or guarantees. There are also Iraqi concerns about the vulnerability of the pipeline to Israeli attack (part of it would be located in Jordan near the Israeli border). Moreover, recent Iraqi activities, such as use of chemical weapons and irresponsible attacks against Gulf tankers make it difficult to justify US financial help for the pipeline. But although there are obviously problems, I believe this issue should be discussed at high levels in the near future and a decision taken on whether, how, and under what circumstances the US Government should support this project.



Maurice C. Ernst

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